

SECTION 32 -- ESTIMATING EMPLOYMENT LEVELS, COMPENSATION, BENEFITS, AND RELATED COSTS

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Summary of Changes

Requires agency submissions to reflect the full Government share of pension and health benefit costs, including the post-retirement cost of health benefits for current employees (section 32.5).

32.1 What terms do I need to know?

Employee, as defined in 5 U.S.C. 2105, means an officer or individual who is appointed under a delegated authority, is engaged in the performance of a Federal function, and is subject to the supervision of an officer or employee of the Federal Government.

Full-time equivalent (FTE) employment means the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, compensatory time off and other approved leave categories are considered "hours worked" for purposes of defining full-time equivalent employment that is reported in the personnel summary (see section 86.1). This definition is consistent with guidance provided by the Office of Personnel Management (OPM) in connection with reporting FTE data as part of the SF 113G reporting system. A list of compensable days (with associated hours) for fiscal years 2001 through 2007 is provided in section 32.3(b).

32.2 What should be the basis for my personnel estimates?

(a) *Personnel.*

(1) *Staffing requirements.* Base estimates for staffing requirements on the assumption that improvements in skills, organization, procedures, and supervision will produce a steady increase in productivity. Personnel should be reassigned, to the maximum extent, to meet new program requirements. Reductions generally should be planned where the workload is stable. Where information technology systems are installed or enhanced, gains in productivity should result in lower personnel requirements after the first year.

Where appropriate, use calculations converting workload to required personnel that include an estimate of available workhours per employee. Exclude annual leave, sick leave, administrative leave, training, and other non-work time in these calculations. Base estimates of available time on current data, reflect steps taken to improve the ratio of available time to total time, and recognize differences in available time by organization, location, or activity. Base exclusions for annual and sick leave on current experience of actual leave taken rather than leave earned. Employment levels should reflect budget proposals and assumptions with regard to workload, efficiency, proposed legislation, interagency reimbursable arrangements, and other special staffing methods. Employment intended for proposed legislation, or for carrying out proposed supplemental appropriations, cannot begin until the additional funds become available by congressional action. Employment proposed for activation of new facilities or start-up of new programs cannot begin until the new activity begins. Employment under estimated reimbursable arrangements also cannot begin until such arrangements have been negotiated and justified.

(2) *Personnel resources.* Just as estimates of employment are based on workyears/person hours, you should base estimates of personnel resources on the total number of regularly scheduled straight-time hours (worked or to be worked) in the fiscal year (see section 32.3(b)). Note that, although budgetary resources must be sufficient to cover any extra compensable days in a fiscal year, some of the corresponding outlays may not occur until the following year.

(3) *Requirement for data in terms of FTEs.* Wherever entries in schedules or materials required by this Circular pertain to personnel requirements or total employment levels, state such entries for all years in terms of FTEs, as defined in section 32.1, unless another measure is explicitly required.

(b) *Personnel compensation.*

(1) *Pay scales.* Unless instructed otherwise by OMB, base estimates on compensation scales in effect at the time of submission of the estimates, adjusted for pay raises contained in the Mid-Session Review economic assumptions.

The Mid-Session Review pay raise assumptions will apply to the statutory pay systems (General Schedule, Foreign Service, and Veterans Health Administration), the Executive Schedule, the Senior Executive Service (SES), and wage grade employees. The pay raises encompass both the Employment Cost Index (ECI)-based national schedule adjustment and locality pay without assumption as to how the total increase will be distributed between the two. Use pay scales that reflect the most recent locality pay rates in preparing your estimates.

You may need to adjust your estimates when final pay assumptions for the budget are released. You should be prepared to provide supporting detail on calculating pay costs, including separate identification of the pre-pay raise wage base reflected in the submission. You must explicitly justify any increases in average compensation for the budget year, other than those due to changes in pay scales.

(2) *Hourly rates.* Base compensation for all employees (as defined in 5 U.S.C. 5504(b)) on hourly rates of compensation determined by dividing the annual rate of basic pay by 2,087, in accordance with section 15203(a) of the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272).

(3) *Within-grade increases.* Additional resources for within-grade increases are normally not allowed. Offset the net cost, if any, of within-grade salary increases (i.e., costs after turnover, downgrades, and

other grade or step reducing events are taken into account) by savings due to greater productivity and efficiency.

(4) *Vacancies*. Base estimates related to vacancies expected to be filled in the budget year on the entrance salary for the vacancies involved.

(5) *Savings in personnel compensation*. Give full consideration to savings in personnel compensation due to personnel reductions, delay in filling vacant positions, leave without pay, lag in recruitment for new positions, filling vacancies at lower rates of pay, part-time employment, and grade reduction actions. Identify terminal leave payments, including those for SES, as offsets against such savings.

(6) *Positions above grade GS/GM-15*. Reflect these positions, including SES, only to the extent that positions have been authorized in those grades by OPM or other authority, or are specifically authorized in substantive law.

(7) *Awards*. Estimates should include amounts for all cash incentive awards. Upon request by OMB, be prepared to provide detailed information on your cash incentive awards program, including a narrative explanation of the basis on which your agency distributes awards and how that relates to its overall performance management program.

(8) *Executive selection and development programs*. Include in your estimates provisions for reasonable amounts for such programs, as required under Title IV of the Civil Service Reform Act of 1978 and by implementing guidelines issued by the Office of Personnel Management.

(9) *Premium pay and overtime*. Fully justify increases over amounts for the preceding year for premium pay. In preparing estimates for overtime, you should analyze the use of overtime to ensure that it is used in a prudent and efficient manner; explore all reasonable alternatives to overtime (such as improved scheduling); and ensure that adequate approval, monitoring, and audit procedures are in place to avoid overtime abuses.

(10) *Special rates for experts and consultants*. Authority to pay special rates for experts and consultants may be requested only when your agency demonstrates that the type and caliber of services required cannot be obtained at the maximum daily rate payable for grade GS-15 under the Classification Act. When such authority is justified and specifically authorized, special rates may not exceed the maximum rate for senior level positions under 5 U.S.C. 5376.

(11) *Severance pay*. Estimate severance pay at the amount needed for the fiscal year. However, obligations will be incurred on a pay-period by pay-period basis, notwithstanding the fact that a liability arises at the time of an employee's separation. Your estimates must include changes in severance pay and personnel compensation that would occur upon the application of instructions covered in OMB Circular No. A-76.

(12) *Physicians comparability allowance*. Reflect in your estimates approved plans to pay bonuses to physicians in accordance with the Federal Physicians Comparability Allowance Amendments of 1987 (Public Law 100-140) and the Federal Employees Health Care Protection Act of 1998 (Public Law 105-266). Instructions for reporting on the physicians comparability allowance program are issued separately.

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(13) *Bonuses and allowances.* Reflect in your estimates approved agency plans for paying recruitment and relocation bonuses and retention allowances. You should be prepared to supply information on planned and actual expenditures upon request by OMB.

(14) *Retirement costs.* Reflect in your estimates the cost effects of changes in the distribution of employees between the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). (See section 32.5 for retirement cost factors.)

32.3 What do I need to know about FTE budgeted levels?

(a) *Policy.*

Consistent with the general policy of making the most effective use of Government resources, each agency head will ensure close management of budgeted FTE levels for his or her agency. Agencies should not convert the work of their employees to contractors unless they first undertake cost comparisons which demonstrate that such a conversion is of financial advantage to the Government.

(b) *Determining FTE usage.*

You must prepare budget estimates relating to personnel requirements in terms of FTE employment, as specified in this Circular.

To determine FTE employment, divide the total number of regular hours (worked or to be worked) by the number of compensable hours applicable to each fiscal year. This calculation standardizes the FTE work year for purposes of setting total FTE estimates, so that the resulting FTE figure will be consistently measured by OPM's SF 113G reporting mechanism. The following list of compensable days and hours for fiscal years 2001 through 2007 should be used to compute FTE employment.

COMPENSABLE DAYS AND HOURS FOR FISCAL YEARS 2001-2007

Year	Days	Hours
2001.....	260	2,080
2002.....	261	2,088
2003.....	261	2,088
2004.....	262	2,096
2005.....	261	2,088
2006.....	260	2,080
2007.....	260	2,080

FTE employment levels apply to straight time hours only. Department of Defense indirect hire employees are not included in FTE employment totals. FTEs funded by allocations from other agencies will be included with the performing agency where the employees work and are payrolled.

Be sure to include in FTE employment estimates all Federal employees, including persons appointed under the Worker Trainee Opportunity Program, Federal Cooperative Education Program, summer aids, Stay-in-School Program, and the Federal Junior Fellowship Program. You are encouraged to participate fully in the student employment and other special employment programs and to ensure that these programs are not disproportionately reduced when agency-wide reductions are required.

The FTE estimates must take into account both seasonal variations in personnel requirements and employment trends (increasing or decreasing personnel levels) for each agency. Therefore, these levels will be related to, but not identical with, end-of-year data in the Monthly Report of Federal Civilian Employment, which is reported to OPM on the SF 113A and reflects a headcount of employees. Measure current year FTE estimates using information compiled from the SF 113G reports submitted to OPM.

(c) Justification of FTE usage.

The FTE estimates for each agency are determined at the time of the annual budget review, for the fiscal year in progress and for the succeeding fiscal year. You must ensure that the FTE estimates are consistent with all applicable laws. In particular, some statutes providing agencies with authority to use voluntary separation incentive proposals or buy-outs stipulate that agency-wide FTE levels must be reduced one-for-one for each buy-out. Further, FTE estimates must represent an effective and efficient use of resources to meet program requirements (see section 51.3).

Actual FTE usage reported in the PY column of the budget must equal the year-end FTE usage reported on the SF 113G to OPM.

Current year FTE estimates should be consistent with PY actuals, should be fully funded, and should be very close to the actual usage reported at the end of the fiscal year. For example, the 2002 estimate in the FY 2003 Budget should be very close to the 2002 actual to be published in the 2004 Budget.

(d) FTE transfers between agencies.

Prior to entering into new or expanded agreements to perform work for other agencies on a reimbursable basis, you must prepare a cost justification in accordance with OMB Circular No. A-76. As part of this agreement, you may transfer FTEs on a one-for-one basis, provided that you notify OMB prior to making such a transfer. You may proceed with the FTE transfer fifteen days after notification to OMB unless OMB objects.

(e) Adjustment requests.

Send all requests for adjustments in employment levels, including agreements to transfer FTEs between agencies, to the Director of the Office of Management and Budget.

32.4 How do I treat agency benefit payments under the Federal Employee Compensation Act?

For accounts subject to appropriations action, include in your budget year estimates the amount billed by the Employment Standards Administration of the Department of Labor for benefits paid on behalf of employees of your agency in the past year under the Federal Employee Compensation Act.

For accounts not subject to appropriations action, you must pay the bill in the current year.

32.5 How do I estimate Federal employee pension and health benefit costs?

Your estimates should reflect the pension costs for Federal employees under the Civil Service Retirement System (CSRS), the Federal Employees' Retirement System (FERS), the Foreign Service Retirement and Disability System (FSRDS), and the Central Intelligence Agency Retirement and Disability System (CIRDS), as well as active and retiree health benefit costs under the Federal Employees Health Benefits Program (FEHB). Basic pay, as used below, is defined at 5 U.S.C. 8331(3). Estimates should also reflect pension and health benefits costs of the Military and Commissioned Corps systems.

- *For CSRS*, your agency's cost is 8.51 percent of basic pay through FY 2002, except for law enforcement officers, firefighters, certain judges, congressional staff, and Members of Congress, as noted in 5 U.S.C. 8334(a). Under current law, the agency contribution rate will revert to 7.5 percent for the first quarter of FY 2003, and to seven percent thereafter. However, the Administration has proposed legislation to require agencies, beginning in FY 2003, to contribute the agency share of the full actuarial cost of retirement for CSRS employees, and you should reflect this full cost in your submission. You will need to be prepared to separately identify the increment associated with this proposal and report on what the costs in FY 2003 would be if FY 2002 contribution rates were to remain in effect. In addition, you should be prepared to provide estimates of what your FY 2002 costs would have been had the legislative proposal been in effect.

Based on the current actuarial valuations by the Board of Actuaries of the Civil Service Retirement System, your agency's cost, as a percent of basic pay, is shown in the following table. The Board periodically revises its valuations. Should this occur, the Office of Personnel Management will notify your agency.

Category of CSRS Employee	Agency Contribution Rate
Regular	17.2%
Regular offset	18.5%*
Law enforcement officers	32.5%
Law enforcement officers offset	34.9%*
Air traffic controllers	24.9%
Air traffic controllers offset	27.4%*
Members of Congress	21.3%
Members of Congress offset	25.2%*
Congressional employees	25.0%
Congressional employees offset	26.5%*

* Rate applicable up to the maximum social security wage base. Because the employee contribution increases by 6.2% for basic pay above the maximum social security wage base, there is an offsetting 6.2% reduction in the agency contribution for basic pay above that amount.

- *For FERS*, your agency's cost is comprised of the costs for the FERS basic benefit, social security, and the thrift savings plan (TSP). The FERS basic benefit is 10.7 percent of basic pay, except for law enforcement officers, firefighters, air traffic controllers, certain CIA employees, congressional employees, and Members of Congress. For these employees, use the normal cost percentage provided in the *Federal Register* of April 18, 1997, and reduce it by the employee contribution of 1.3 percent. Base your TSP estimates on your agency's actual experience, which should fall between one and five percent of the FERS basic payroll.
- *For FSRDS and CIARDS*, the Administration's legislative proposal would also require that the agency's contribution pay the agency share of the full actuarial cost of retirement for employees covered by these systems. The contribution rate for these systems will be provided in subsequent guidance.
- *For Commissioned Corps Systems*, the Administration is proposing similar legislation to cover the accruing costs of retirement and health benefits for members of the three Commissioned Corps (Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration). The contribution rate for these systems will be provided in subsequent guidance.
- *For FEHB*, under current law, your agency pays the Government contribution for active employees while funds appropriated out of the General Fund of the Treasury pay the Government contribution for annuitants (5 U.S.C. 8906). The Administration has proposed legislation to require the FEHB program, beginning in FY 2003, to charge agencies for their portion of the Government's share of post-retirement health benefits costs. As a result, in addition to your agency's cost for current year health insurance premiums, you should include in your submission a separate and additional amount to reflect the post-retirement cost of health benefits for your current employees. Additional guidance containing the cost factors you should use to calculate the additional accrual amount will be provided separately.
- *For Uniformed Services Post-Retirement Medical Care*. Medical care for "Medicare-eligible" members or former members of the uniformed services entitled to retired or retainer pay and dependents will be funded on an accrual basis under a recently enacted law beginning in FY 2003. The Administration is proposing legislation that would extend this accrual funding to all members or former members entitled to retired or retainer pay and their dependents – not just those who are Medicare-eligible.

32.6 How do I reflect the effects of pay raises?

For the following three types of budget accounts, reflect the effects of the increased agency contribution to employee retirement and of civilian and military pay raises using the pay raise assumptions specified for these accounts in the Mid-Session Review:

- Governmental receipt accounts containing Federal employee contributions to Federal employee retirement.
- Offsetting receipt accounts (employer share, employee retirement) containing employing agency contributions to Federal employee retirement.
- General fund contributions to Federal employee retirement.

Major agencies with accounts in these categories include DOD, State, Treasury, and OPM.

32.7 How do I budget for unemployment compensation?

In general, you should not budget for the costs of unemployment compensation for former Federal civilian and military personnel. The congressional intent is that such unemployment compensation be paid from appropriations available to the employing agencies. The liable agencies must absorb these reimbursements when they are required to be paid.

If you do not employ large numbers of temporary employees or other personnel expected to lead to significant unemployment compensation claims, your estimates for the current and budget year will not contain any special provisions for the costs of reimbursing the unemployment trust fund for such payments.

If you employ large numbers of temporary employees to meet part-year workload, you may request approval from OMB to budget for unemployment compensation costs for your temporary employees. OMB will consider such requests if you can demonstrate that you have a sound administrative control system for unemployment compensation claims.